RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Mar. 29, 1995 **LETTER 1170**

THE MARKETS: Opening note: The great Japanese "stock market bubble" topped out in 1989 with Japan's Nikkei stock index just under 40,000. Last week Japan's Nikkei Index broke below 16,000, to its lowest level in two-and-a-half years. The break means that the Nikkei is now down 60% from its 1989 bull market high. Meanwhile, with its trade balance still rising, the yen goes through the proverbial roof. But alas, Japan sinks into something resembling recession.

US: I realize that it's ironic in view of the new record highs in the Dow and the S&P, but I continue to classify the primary trend of the market as bearish. Let's go over the situation to see whether that stance is valid or whether there's a reason to change my view.

The Dow hit a record high of 3978.36 on January 31, 1994. A few days later, on February 2, the Transportation Average struck its own record high of **1862.29.** The Dow continued to advance, but at the same time the Transports embarked on an extended decline, a decline that ended for the Transports on October 6, 1994, at 1438.50 (424 points under its record high).

Following the October 6 Transport low, both Averages headed higher with Industrials recording a succession of new record highs over the past month. However, the new Dow highs have been unconfirmed. To confirm, the Transportation Average would have to better its February 2, 1994 record high of **1862.29.** So far, that hasn't happened.

So surveying the whole picture, what do we have? We have unconfirmed new highs in the Dow, we have a rising Transportation Average that is still around 275 points below its early-1994 record peak, we have a lagging advance-decline ratio, and we have a dangerously overvalued market with the Dow now yielding a minuscule 2.68% (the Dow yield is roughly half the yield provided by 91-day Treasury bills).

My **Primary Trend Index (PTI)** turned bullish (see page 2 chart) on February 2, 1995, the day in which it rallied above its 89-day moving average. Most recently, however, the PTI has been hesitating. I've always maintained that *"the PTI has more brains than I have."* Therefore, the only question now is -- will the PTI continue to rise, or is this "all she wrote."

For long-term investors -- you need boundless and unflagging faith in Wall Street and total skepticism regarding history in order to buy stocks here. Yet, millions of stockholders continue to pour billions of dollars monthly into the stock and bond markets (mostly via mutual funds).

For traders and speculators -- you're welcome to try to beat this market. That hasn't been easy, but it can be done. Personally, I'm abstaining, but then fooling with a chronically overvalued stock market is just not my cup of tea.

One old-time (frustrated) trader tells me that this is the "virtual bull market." He calls it virtual because it looks like a bull market but it many ways it doesn't act or "feel" like one. How so? Despite new highs in the big Averages too many stocks have failed to recover from their extended 1994 declines, too few new 52-week highs are being registered, too few confirmations of the new Dow highs have materialized.

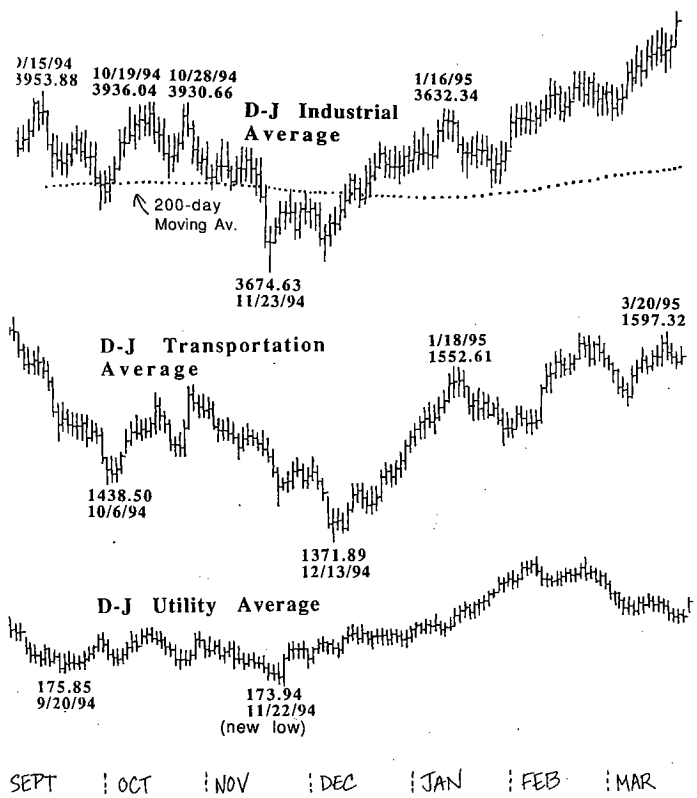
Mar. 17 DJIA 4073.65; PTI 4003; A-D Ratio -8.35
Mar. 24 DJIA 4138.67; PTI 4012; A-D Ratio -8.15
Dow Yield: 2.65%; Dow Price/Earnings: 16.1
Dow 200-day MA: 3841; Dow 30-day MA: 4013
Dow Times Book Value: 3.70; PTI 89-day MA: 3971
Percentage of Undervalued Blue-chips: 9%
Dow Low Risk Buy Index: +68; Gold-PTI: 722
Gold 200-day MA: 383.84

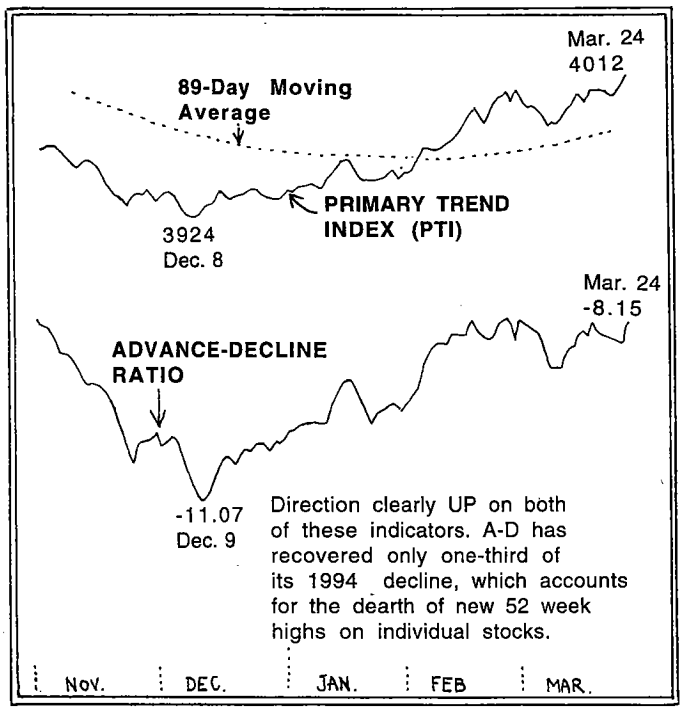
The fact is that Germany's mighty D-mark has now become the world's "currency of last resort." The D-mark is the currency that savvy international investors now turn to when the going gets tough.

In Germany the phrase "internal stability before external stability" offers a guarantee to the world that the Bundesbank will not move to a softer D-mark stance no matter what. And in the US the great irony continues -- while nobody seems to care about the dollar, everybody cares about avoiding another recession.

When the Balanced Budget Amendment was voted down, international money took it as a signal that the US was not serious about curbing its profligate spending habits. And can you blame international money? As matters stand, the US is slated to borrow **$1.4 trillion in new money** by the end of the century. With 20% of US government debt now owned by foreigners, the situation has become increasingly dangerous.

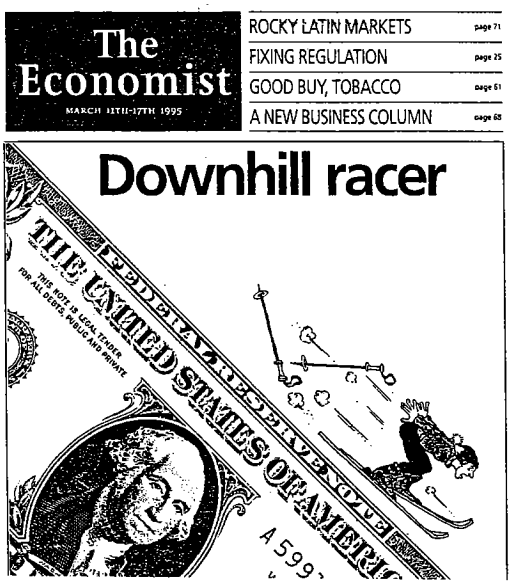
On top of everything else, the US **trade deficit** is running at the outrageous rate of $165 billion annually, and this translates into an ever-increasing mountain of dollars piling up overseas. Can the world absorb this never-ending tide of dollar-debt? The answer is "probably not, but one thing is sure -- the cost to the US of floating all this debt is bound to rise." And the value of the dollar is bound to fall over time.





Note: I must say that this is one of the most unusual advances that I can remember. It's the very concentrated buying in the big high-cap stocks that is so amazing. New Dow highs are often recorded accompanied by only 50 or 60 new 52-week highs on individual stocks. Furthermore, Dow highs have been struck with the Transports actually declining. And over the last months the Utility Average (often a leader) has rolled over and turned down.

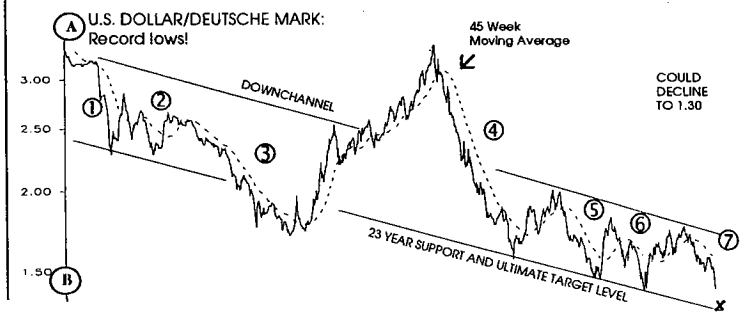
Dollar: It's becoming increasingly obvious that the reign of the dollar as the world's "King Currency" is coming to a close. The European newspapers and magazines know it, the currency markets know it, global central banks know it, the authoritative *Economist* magazine knows it (and it was featured on its March 17 cover).


The Economist
MARCH 11TH-17TH 1995
ROCKY LATIN MARKETS page 71
FIXING REGULATION page 25
GOOD BUY, TOBACCO page 61
A NEW BUSINESS COLUMN page 68
Downhill racer
THE FEDERAL RESERVE NOTE
THE UNITED STATES OF AMERICA
THIS NOTE IS LEGAL TENDER FOR ALL DEBTS, PUBLIC AND PRIVATE

So it's the path of the dollar that I think will increasingly dictate our future. Washington may not have the will to control our billion-dollars-a-day deficit habit. As a result, the currency vigilantes are fated to serve as the new "policemen to America."

This long-term chart of the dollar in terms of D-marks is instructive. Here we see the dollar in a 23-year declining channel with only one real interruption, the big short squeeze of the early '80s. But aside from this one large advance, the trend of the dollar in terms of D-marks has been down, down and down.

U.S. DOLLAR: Down, down and down



In my experience, moves like this tend to end in **climax.** The climax is the final crush, wherein the item breaks below the lower channel line and all the stubborn optimists and holdouts finally "throw in the sponge." Is this the trip that the dollar is now on? No way of knowing at this writing [this chart is courtesy of my old friends, the Aden sisters who live in Costa Rica (*Aden Forecast,* PO Box 84905, Phoenix, AZ 85701)].

INVESTMENT POSITION: A few years ago I read a book which consisted of a collection of interviews with 16 very successful investors. What struck me was that each of these investors operated according to a **definite method;** furthermore, each of these investors **stayed** with his particular method.

The Russell method adheres quite strictly to the precepts of Dow Theory and values. Where I have strayed from Dow Theory and values, I have tended to go wrong (although sometimes it takes a while before it is apparent that I have been wrong).

After you wrestle with the stock market through a full bull and bear cycle, you start bumping into that old thesis -- risk/reward. To put it another way, any time you buy a given security, you have to ask, "What are the potential risks vs. the potential rewards?"

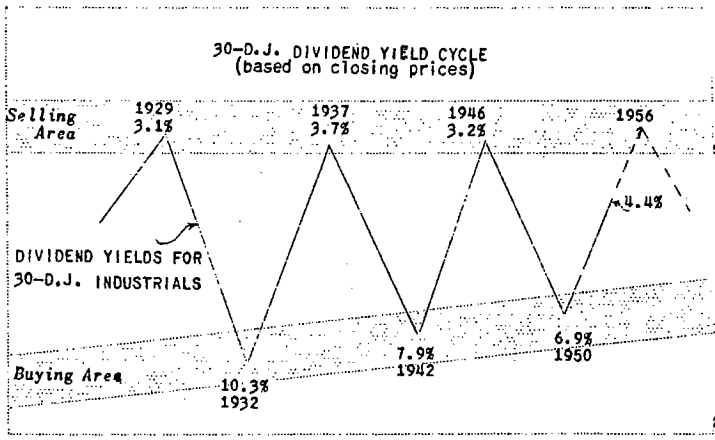
Today the **risk** in buying stocks is extremely high. I won't go over (again) all the many different negatives, but suffice it to say that the public (mutual funds buyers) are up to their eyeballs in stocks, values are extremely thin, and few people are thinking in terms of the end, the final end of the bull market that began in late-1974.

This very significant paragraph is from La Jolla's *Investment Quality Trends* publication: *"For the past three years the D-J Industrial Average has been in the Overvalued territory, during which time the price has been narrowly contained within a 10% trading range. Meanwhile many major stock industry groups have declined. Obviously, this time is different. This is the* ***longest stretch*** *of Overvalued time in history. Perhaps stock repurchases have delayed the inevitable, but it is unlikely that historic measurements of investment value which have persisted in the market for more than one hundred years have changed fundamentally."* **Russell comment:** In other words, tread very carefully, this is a market that is not only overvalued, but it is one that has been overvalued for a long period of time.

THE YIELD CYCLE: I've written repeatedly that the most basic fundamental of Dow Theory has to do with an appraisal and understanding of **values.** Charles Dow gave great emphasis to the study of values. To gauge overall market value Dow used history's most reliable indicator -- **dividend yield** or the return on the investment.

George Schaefer, the great Dow Theorist of the 1940s through '70s, emphasized the **yield cycle.** Actually, one can identify the successive bull and bear markets simply by tracing the extremes in Dow dividend yields. I'm including below an actual chart from Schaefer's mailing of December 17, 1955. You can see that if you had bought stocks at the high yield zone and sold them at the low

yield zone you would have done very well. Schaefer used average Dow yields as one of the cornerstones of his amazingly successful market forecasts.



On Jan. 19, 1952 Schaefer wrote, *"Since the coming of New Deal policies, it's apparent that dividend yields for stocks at the bear market lows have a definite trend of becoming smaller with each successive bear market."* And a study of his chart shows that this is true.

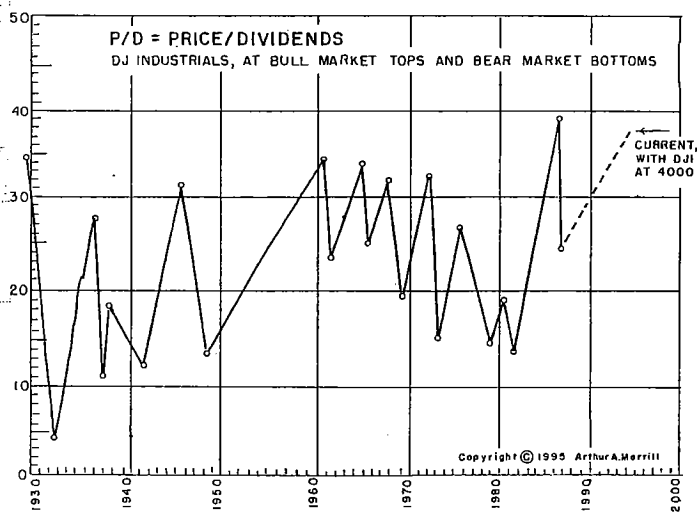
However, Schaefer did not reckon with the tremendous buildup of debt in the US nor did he count on the increase in taxes. These items plus others may have accounted for the violence of the bear market of the 1970s. That drastic bear market, which ended in December 1974, battered stocks to shocking, almost unrecognizable lows. At the 1974 bear market lows, the rising trend of yields at bottoms was violated -- and the yield on the Dow approached 7%.

The fat yields at the 1974 bear market lows told investors that stocks were severely undervalued and that they represented a fabulous buy. Today, with the yield on the Dow at 2.68%, I'm certain that Schaefer would have said "sell." Remember, however, that the yield cycle is not a pin-point technique for buying or selling stock. It simply tells us where we are in the overall picture. It also tells us when we can buy stocks at great values and when we should sell those stocks because they are overvalued.

Investment Quality Trends here in La Jolla publishes a service which basically deals with stock yields. *IQ Trends* monitors 350 blue chip NYSE issues. Based on historical studies we know that every stock tends to move back and forth through definite yield ranges. As an actual example, historically AMP Inc. tends to fluctuate between a 1.3% yield (where it is overvalued) to a 3% yield (where it is historically undervalued). *IQ Trends* monitors all 350 stocks and tabulates the percentage of those 350 stocks that fall into the undervalued classification. *IQ Trends* has been doing this since the '60s.

In 1991 *IQ Trends'* undervalued blue chip percentage (refer to the chart at the bottom of the page) dropped below 10%. More recently the undervalued group sank to a minuscule 6%; it is now a low and dangerous 9%. Thus, we are in the overvalued selling zone for stocks. It's the area from which bear markets are born. It's the danger zone. Dow would agree; Schaefer would agree; and I agree.

I just received this chart from Arthur Merrill, one of the modern pioneers of market analysis. The chart shows the yield situation in a different way, namely the Dow divided by its dividends (i.e., the Dow/dividend ratio). Here we see the great low of 1932, and the successive bear market lows of 1938, 1942 and 1949. But what is particularly important to note at this time is the extreme high of 1987 and the almost matching current high in the ratio. From an historical viewpoint, today's market is "up there," in fact it's WAY UP THERE (i.e., the Dow is now selling at 37 times its dividends).

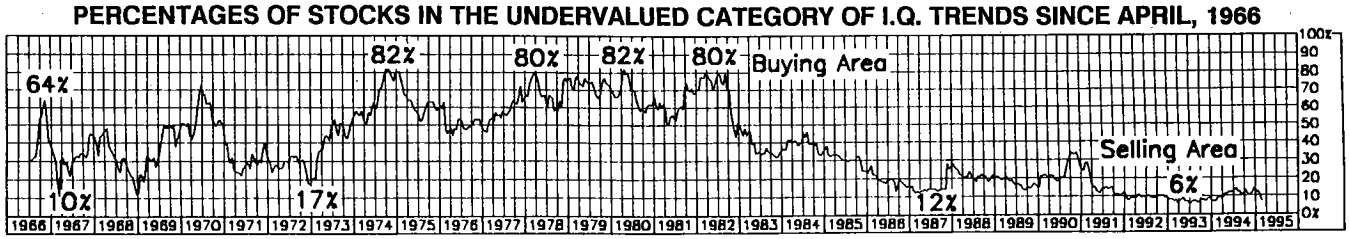


NEW! -- or NOW IT CAN BE TOLD: Subscribers may wonder why I manage to stay happy with my own investments while at the same time writing bearishly and warning subscribers to beware of this stock market. In other words, *"Russell, where have you put your own and your family's money?"*

For those who are interested in what I, personally, have been doing, and for those who may want to join me, may I suggest that you write requesting information (PO Box 229, La Jolla, CA 92038). If nothing else, I can promise that you'll add greatly to your investment knowledge. To pique your curiosity, I'll just say that I'm going to tell you about my first new business venture since I started published Dow Theory Letters 37 years ago back in 1958.

NOTES & QUOTES: Some of the nation's smartest pols believe there will be a strong third-party candidate for president in '96, and they don't think it will be Ross Perot or Colin Powell. Former Connecticut Governor Lowell Weicker believes "there will be a major third-party candidate, a centrist, who will have great appeal and it will be a very tight three-way race." Opines former Texas Governor Ann Richards, "In that scenario, if Lowell is right, it will be a tight three-way and I think ultimately Clinton will win." **Russell comment:** I'm beginning to think Richards is right. I also am beginning to believe that the American people are so distrustful of Washington that they actually want a split -- a Republican Congress and a Democratic president. In that way, voters figure that the least harm will be done to them in that it will be difficult to pass any harmful new legislation. (Item: polls shows that people are already becoming distrustful of Gingrich.)

PERCENTAGES OF STOCKS IN THE UNDERVALUED CATEGORY OF I.Q. TRENDS SINCE APRIL, 1966



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There's a malaise or I should say an anger blanketing the US. You see it, you feel it everywhere. You see it in the armed "militias" that are springing up across the nation. You see it in the anger against Washington. You see it in the distrust of the dollar. You see it in the growing inter-racial strife. You see it in the new anti-Semitism. You see it in the anger against uncontrolled immigration and reckless crossing of our borders. You see it in the objections to the "one world" attitude being espoused by Washington. You see it in the endless corruption revealed as our politicians are dragged into court. You see it in the sky-high US crime rate and the fact that the US now has over one million people in prisons. You see it in the rise of the death penalty and the "three strikes and you're out" laws.

Personally, I believe it all starts with the degradation of our currency, in the systematic loss of the dollar's purchasing power. Inflation is a tax. Or even worse, inflation robs citizens of the fruits of their labor and destroys their savings. To me, there are few phenomena more demoralizing. After all, the government is (or used to be) a **role-model**, and if your role-model is a liar and a thief, then who can you trust? And why should you be any better?

The government a thief? What else do you call a system that confiscates the fruits of your labor? The government a liar? What else do you call a government that avoids the truth or a government that never tells you the true size of its deficits or a government that includes the assets of the Social Security Trust as part of its budget?

When a government runs deficits of a billion dollars a day, and then it borrows the money to cover those deficits, sooner or later "something's got to give." And what's been giving is the dollar. It's no longer the dollar's reserve status that is the crucial equation. No, now it's a question of international confidence. And confidence is eroding.

* *

The battered Mexican peso can't seem to rally to less than seven to the dollar. And there's a reason -- the Mexican mess is getting messier. Taxes were raised in Mexico while Mexican securities and savings were slaughtered via the devaluation. Hundreds of businesses have closed down, and interest rates on one-month Mexican 28-day government paper are around 80% (that's right, eighty percent). Mexican citizen-protesters have been marching, resentment is rising, and the feeling is that the "imperialistic" US has "taken over" south of the border. Can the Mexicans hold together in the face of all this? We'll see, but let me put it this way, I'm not rushing out to buy fat-yielding Mexican treasury debt.

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I don't think most people realize what's been happening to the dollar. In a decade the dollar has lost 62% of its value against the yen (it's lost 10% this year alone). As recently as 1986 the dollar bought 2.2 D-marks and 170 yen. Today the dollar buys only 1.38 marks and only 88 yen. So forget purchasing-power parity or the fact that the dollar's a blasted international bargain. No, the dollar's plight has now been reduced simply to international supply and demand. And there's oodles of supply.

* *

Inflation dead? John Liscio [*Liscio Report,* (201) 744-4574] provides these fascinating insights: 17 major industries are now operating at over 90% of capacity including lumber, paper, rubber and raw steel. Says Liscio, "PPI for core crude goods is exploding at a 26.8% clip in the past three months . . . PPI for core intermediate goods is up at a 9.2% annualized clip over the past three months." **Russell comment:** My guess is that PPI (producer) inflation will creep into CPI (consumer) in coming months (that is, unless the stock market collapses or the economy sinks into recession).

* *

I take the possibility of a basic change in our tax system very seriously. I've said all along that Republican candidates would do themselves a world of good if they advocated either the flat tax or the national sales tax. Obviously, Malcolm Forbes Jr. agrees with me. In the lead editorial of the March 27 *Forbes* magazine, Malcolm notes that "long-shot Presidential candidate Arlen Spector" (he's pro-choice) is advocating a variant of House Majority Leader Dick Armey's flat tax proposal. Forbes notes that in a national mailing (Malcolm's head of "Empower Americans") the response to the flat tax has been "phenomenal, far exceeding interest in health care, welfare or tort reform." A totally new tax system -- to my mind it's political dynamite, and candidates should drop their usual caution and push for it.

* *

My wife, Faye, will take a three week vacation in May (even corporate lawyers have to rest some time). She's going to Paris, London, and then to Martha's Vinyard. Me (stick-in-the-mud that I am), I'm staying home -- I told Faye to send me post cards or if she wants to go modern, send me faxes. I don't take kindly to traveling these days. I guess I get angry when plane flights are canceled, when hotel bills and meals in Europe are sky-high, and when I can't find a decent low-cal salad in a big city like London. Ah well, call me crabby-appleton. I'll continue to rough it here in La Jolla, and hey, Faye promises to write.

* *

I just read an article in the *LA Times* headlined, "Hard Truth Hits Visitors to Japan or Germany." The article talks about a seasoned businessman who was "jolted" by prices in Tokyo: "Breakfast -- $32. Coffee -- $5 and change." The fellow complains, "I've got American customers over here. We'll be eating in traditional Japanese restaurants and in some of the nicest places, probably dinner for six in the neighborhood of $2,000 or $3,000, at least. And that's being conservative." **Russell comment:** They say "travel broadens one." Maybe it does, but today traveling has becoming a thinning process -- thinning your wallet.

* *

They're referring to it as the North American "peso bloc," meaning that international investors are lumping the US dollar, the Canadian dollar and the peso together as just a weak group of currencies. Others are disparagingly referring to the dollar as *el peso del norte.* Believe me, that's not good. In 1975 75% of world central bank reserves were in dollars. In 1994 that figure had dropped to 61%. In other words, the world is diversifying OUT of dollars and into other strong currencies.

Could the dollar lose its reserve status? Yes, it could. World investors may reach the point where they don't want to hold IOUs of a government they don't trust and don't respect. They may want to keep their savings in a currency that has a record as a store of value, for instance the yen or the D-mark or the Swiss franc. In the meantime Fed Chairman Greenspan talks his Fed-speak gibberish, and other Fed members imply that avoiding a recession is more important than a stable dollar. Good luck, guys. Let the tale of the dollar unfold.

Question: What's the advantage of having a currency that's the world's reserve currency? One BIG advantage is that you can borrow overseas, and then pay back in your own currency. So the US borrows billions of dollars from say Japan and then pays them back years later in depreciated dollars (I've heard that Japan's loss on US securities has reached $400 billion). The time will come (if we don't halt our deficit-creation) when the US will borrow dollars and have to pay it back in D-marks or yen. Gad, that would put us in Mexico's class.

* *

The futures and options business is massive. Scrutinizing trading on 41 world exchanges, *Futures* magazine published a list of the most heavily traded futures. Here are a few, and these figures are all on **average daily volume.** US Treasury bonds -- 395,000 contracts; French national bonds -- 200,000; German bonds -- 148,000; 3-month eurodollars -- 414,000; 3-month euromarks -- 116,000; IBEX-35 (Spanish stock index) -- a surprising 111,000; S&P 500 -- 73,000; US dollar -- 160,000; crude oil -- 106,000; copper -- 68,000. Remember, these are contracts per DAY.

A lot of nonsense is published about futures and options. For instance, you might read that a bank has a $500 million position in futures on the yen. But they might also have hedged their position with options so that they might have only $10 million at risk. The futures business is a zero-sum game. In other words, it does not work like stocks. If you own 1000 shares of GM and the stock drops 20%, nobody gains 20% due to your losses. No, when you

lose on a stock the amount that you've lost just evaporates into thin air. But when you buy a future contract, you are buying that contract because someone else at the other end is willing to sell it to you. If you win, they'll lose, and if you lose, they'll win. Furthermore, you can't buy or sell a future or an option unless someone else is willing to sell or buy a contract from you.

* *

Down the Drain Dept.: At the beginning of the peso's recent demise, foreigners, including Americans, owned $50 billion worth of Mexican shares (this represented 26% of the entire Mexican market). With trillions of quick-moving "hot money" now sloshing around the world, "small markets" in less-developed nations are subject to explosive rises and just-as-explosive collapses. In other words, small markets lack liquidity, and when you invest in an illiquid situation, you can make it or lose it very, very quickly.

* *

I'm surprised at Fed chief Greenspan. He's really pushing this "shadow commission" idea. The commission would be a committee which would develop a consensus as to the CPI's upward bias, and Congress would use these figures to make cost-of-living adjustments. In other words, Greenspan is saying that the Bureau of Labor Statistics' figures on the Consumer Price Index are too high. **Russell comment:** I think the CPI figures are too low. Everyone knows what's happening to their daily expenses -- they're going up and up. (Do you believe that the PO will be charging 21 cents for a "penny postcard"!) Of course, what Greenspan is trying to do is cut back the cost-of-living adjustments which in turn would help the deficit.

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I've known Irving Weiss since 1958. Irv is and always has been a total vegetarian, living on uncooked veggies, nuts, seeds, etc. Irv is still going strong in his 80s, so whatever he's doing must work. Irv made his money selling short in the crash of '29. He was one of the first investors I knew of who espoused the value of T-bills and gold. Irv now works for his son, Martin; Martin publishes the *"Safe Money Report"* (*Weiss Research,* PO Box 109665, Palm Beach Gardens, FL 33410).

What Irv writes about the Mexican situation is well worth repeating: "I am outraged by Clinton's $20 billion welfare check for Mexico. The currency is unstable; the government defaulted on its debt 12 years ago; the elections are stolen; there's no rule of law; and the oligarchy rules through corruption, political assassination and terror . . . Clinton couldn't find any money to give back to the American taxpayer, but he was able to find it for the corrupt ruling elite of Mexico. Clinton didn't even ask Congress, he did an end run around them, passing the $20 billion on to Mexico by presidential edict . . . This bailout is just rotten to the core; it has no chance of working. The losses are far too big. Clinton says this money is to be used for fixing the Mexican economy. In reality, it's being diverted to bail out Mexican banks and to pay off US money center banks and Wall Street investment firms which hold tens of billions of dollars in short-term Mexican Treasury bonds . . . These bonds are coming due between now and the fall. As the Wall Street firms begin demanding their money back, the bailout funds will run out. That's when the crisis will explode again. Clinton has just flushed all this money, your's and mine, down the drain."

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Money: John Travolta's Hollywood career has been a real yo-yo. Up, down, down, down, and then that great part in Pulp Fiction for which he received a lowly $140,000. But now up, up -- Travolta's going to get $5 million for the coming "Get Shorty" at MGM, then $8 million for the coming "Lady Takes an Ace," and who knows what for TriStars' coming "Danny Brescow." After his Forrest Gump triumph, Tom Hanks is now asking $15 million a pic . . . Now *Forbes* mag has provided us with the total takes of the new darlings of the universe, the Super-models. Cindy Crawford makes $6.5 million a year, Claudia Schiffer makes $5.3 million, Christy Turlington makes $4.8 million, Linda Evangelista makes $3 million, Naomi Campell makes $2.1 million and Kate Moss makes $2.2 million. But then there are those thousands of models and actors who make an awful lot less (90% of actors are unemployed at any given time).

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Speaking of money, remember the SDI (Strategic Defense Initiative). So far, the US has spent $36 billion of taxpayers money on SDI and they still have not built a defense against incoming missiles. Said Wyoming Sen. Malcolm Wallop, "We didn't build missile defenses because we, collectively, never intended to. But we didn't tell the taxpayers that. Instead, we took their money and gave them SDI all wrapped up in pseudoscientific language, governmentese and managerese. In plain English, we spent the taxpayers money to 'dumb down' the American people's defensive weapons." **Russell comment:** Damn, so that's where my money goes.

* *

Thomas Friedman in the *NY Times* op-ed page (Mar. 20) writes an open letter to Syria's dictator, Hafez el Assad. The letter was a beaut, and here's an excerpt: "Hafez, the cold war is over. There is a new global architecture. There are no longer two superpowers to play against each other. There is only one and we're broke . . . Instead of superpowers, Hafez, there are super markets. There's the Tokyo bond market and the Frankfurt bond market and the Wall Street bond market. These bond markets are actually more powerful than many governments today. And let me tell you, Hafez, you don't play the Tokyo bond market off against the Frankfurt bond market. No, no, no. They play off you. That's right, they play Syria off against Mexico off against Brazil off against Thailand . . . Whichever country has the most stable government, the most efficient economy, the most Westernized legal system, the most convertible currency and the most educated labor force gets rewarded with investment capital from the super markets. Those countries that don't get their house in order are left as roadkill on the global investment highway. And Hafez, you are destined to be roadkill." **Russell comment:** Boy has Friedman got that right. By the way, here are the nations that are leading in Internet connections (based on ratio of people to direct Internet connections): US, Canada, Australia, New Zealand, Norway, Sweden, Finland, Iceland, Switzerland.

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Do you remember the little tax-payer fellow who was so broke that he walked around dressed only in a barrel? Do you ever wonder what happened to him? This cartoon provides us with the sad answer. When last heard from, the FBI had picked him up on a nudity charge. I mean, life isn't easy anymore.

I've been talking about the great **division** developing between that small segment of computer-literate high-tech Americans and the "rest" (probably 70%) of the US population. The following is from Felix Royatan, senior partner of Lazard Freres: "The big beneficiaries of our economic expansion have been the owners of financial assets and a new class of highly compensated technicians working for companies where profit-sharing and stock ownership was widely spread . . . What is occurring is a huge transfer of wealth from the lower-skilled middle-class American workers to the new technological aristocracy. As a result, the institutional relationship created by the mutual loyalty of employees and employers in most American businesses has been frayed . . . These relationships have been replaced by a combination of fear for the future and a cynicism for the present as a broad proportion of working people see themselves as simply temporary assets to be hired or fired to protect the bottom line and create 'shareholders'

value'." **Russell comment:** Even worse, the low-paying jobs are now being exported to highly competitive low-wage nations overseas.

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There's something wrong with my TV set. Every time I turn it on to watch the Simpson trial my set malfunctions. Instead of Simpson on trial, the darn set shows the LA Police Dept. on trial. I'm fascinated to see whether the jury finds the LA Police innocent or guilty. (Kinda disgusting, isn't it?)

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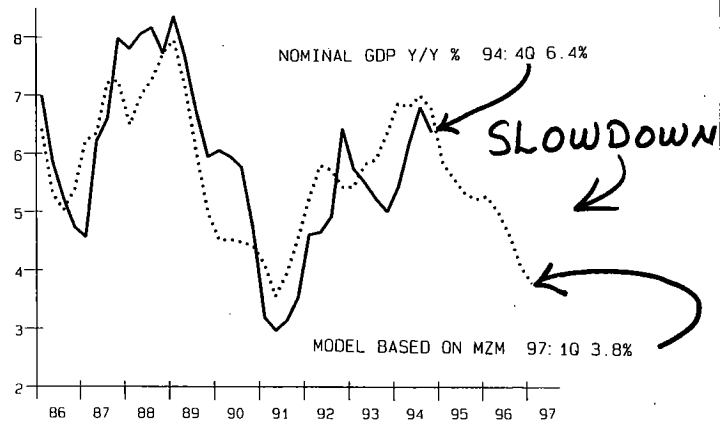
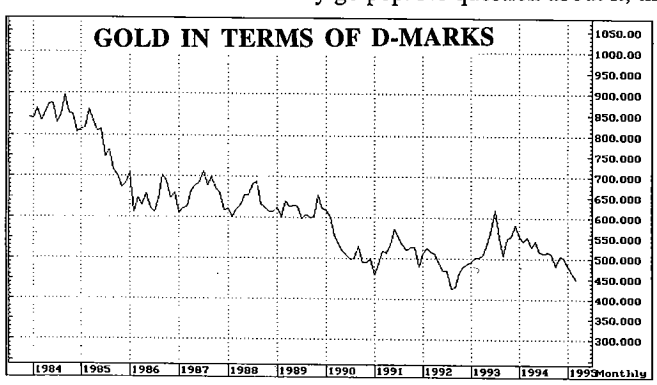
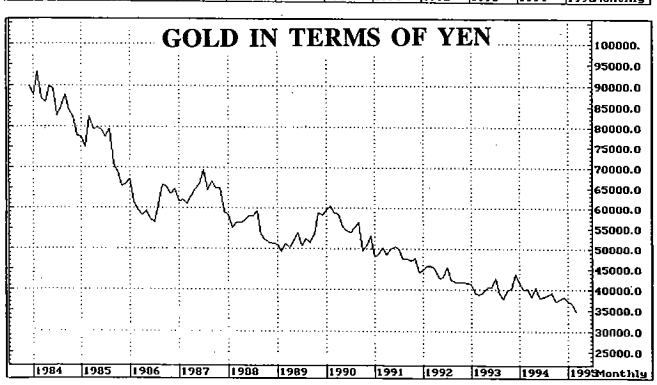
Ed Hyman, Wall Street's favorite economist, has come up with this chart of the now widely-followed MZM money supply. Says Ed, "MZM leads nominal GDP by 2 years with an 80% correlation . . . This model indicates the economy will slow for the next two years even if the Fed starts easing now."



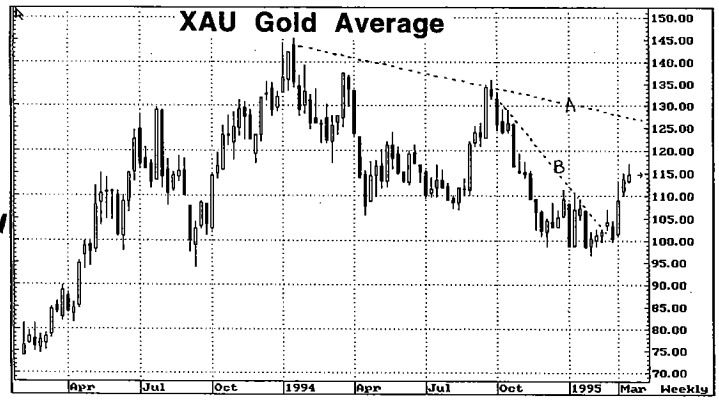
GOLD: Is gold cheap? You better believe it is. I ran these two charts off. They show gold priced in terms of D-marks and gold priced in terms of yen. And these charts go back ten years. In terms of D-marks, Swissie, yen, they're literally giving gold away. Despite this, gold has been sluggish, even in terms of dollars.

I spoke to around 700 people at a Benham San Diego conference last week. The question most often asked was, "Why, with all the crises going on in the world, isn't gold rising?" My answer was that today scared money is going into D-marks and yen rather than gold (they like the fact that currencies pay interest). One well-known economist has talked about the "D-mark bubble," and he notes that all bubbles eventually go pop. No question about it, the D-mark (and certainly the yen) appear super-high-priced against the dollar, but let's face it, international investors are sick and tired of US debts, deficits, and they're sick of Washington's well-known "benign neglect" of the dollar. And who can blame them? After all, if you've watched your dollar investments and dollar reserves go south year after year, you'd be moving into other currencies too.

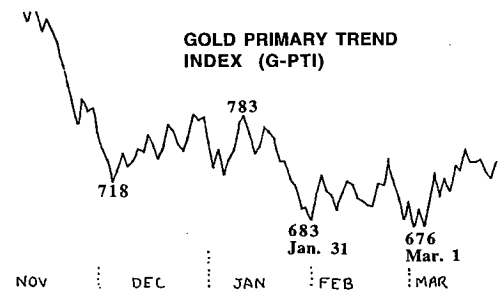




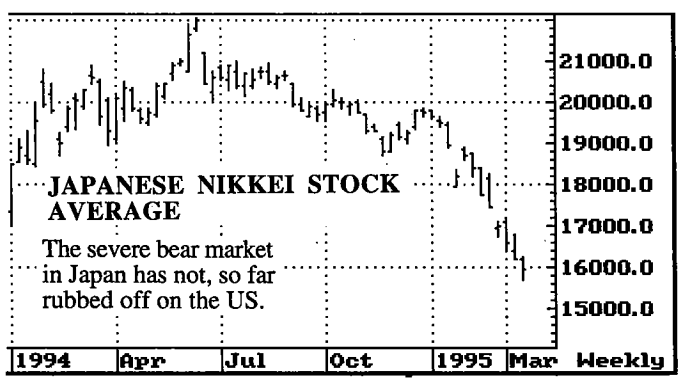
I'm including below the XAU gold stock average. Since early-1994 the trend has been bearish (XAU holding below trendline A), with the gold average finding strong support just below 100. Five weeks ago XAU broke above declining trendline B. This action turned the secondary trend of XAU bullish. Fine and dandy, but obviously, the important target is for XAU to advance above trendline A at around 126.



The second chart shows my Gold-Primary Trend Index, which recorded (I believe) an important bottom on March 1 at 676. The upside target here is January's 783. Why guess? Let's just see if the G-PTI makes the move.



LATE NOTES: This "exotic" stock market advance continues. The US stock market evidently couldn't care less about the collapse of the Japanese market, the collapse of the Mexican and Latin markets, the shockingly negative US trade balance or the cave-in of the dollar. A market that's able to ignore those cataclysmic events obviously wants to go up. But wait -- there are the discrepancies -- only six Dow stocks have accounted for 57% of the Dow rise this year (the stocks were Disney, IBM, Philip Morris, Procter, Coke and Merck). Just as strange, the advance-decline ratio (NYSE) has so far recouped only 31% of its 1994 losses, and this is the reason why there are so few 52-week individual highs on the NYSE (the majority of stocks have not sustained major recoveries). It's a strange advance, it's a tough advance to make money in, and part of the problem may be the fact that the market is so overvalued.



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